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MANGEL STORES CORPORATION

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1938

AND

CONSOLIDATED STATEMENT OF INCOME AND PROFIT AND LOSS

FOR THE YEAR ENDED DECEMBER 31, 1938

MRB3
Corp. File

February 18, 1939.

To the Stockholders of

MANGEL STORES CORPORATION

The Profit and Loss account for the year ended December 31, 1938, and the consolidated balance sheet are presented herewith.

The Company had 106 stores in operation at the end of 1938 as against 110 in 1937. The decrease, store for store, was in line with the drop in retailing in general and with the women's ready-to-wear business in particular.

However, in spite of the very difficult business situation in the first nine months of the year, the Christmas period demonstrated a very healthy increase that carried over into January, and gives hope that improved conditions will prevail in 1939.

A number of units were improved, and four unprofitable stores were closed in 1938. No new units added. Our expansion program for 1939 calls for consolidating and improving the units we have.

The cash balance increased from $522,006 in 1937 to $748,000 in 1938. Our inventory is in an especially good condition,—it dropped from a low of $774,691 in 1937 to $737,655 in 1938.

In spite of declining volume, merchandising results and controllable operating expense were better. Therefore, your Company feels that should business conditions in 1939 continue to show improvement, we have every reason to expect, with an increase in volume, a more satisfactory result in net profits.

Respectfully submitted,

SOL MANGEL,

President.

EXHIBIT A

MANGEL STORES CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1938

ASSETS

CURRENT ASSETS:			
Cash in banks and on hand			$ 748,000.59
Sundry accounts receivable (less reserve)			44,687.55
Merchandise inventory, certified by the management as to quantities, marketable condition, and as to valuation at the lower of cost or market, based upon the retail method of inventory valuation			737,655.13
TOTAL CURRENT ASSETS			1,530,343.27
OTHER ASSETS:			
Loans to officers, employees and others (less reserve)		$ 3,520.91	
Cash balances, certificates of participation, etc.,—suspended banks (less reserve)		1.00	
Sundry deposits		4,577.90	8,099.81
FIXED ASSETS:			
Real estate—at values as appraised for the management in June, 1932, with subsequent additions at cost, subject to mortgages shown contra	$185,370.00		
Less: Reserve for depreciation	16,999.65	168,370.35	
Furniture and fixtures, leasehold improvements, and truck—at values appraised by the management in June, 1932, with subsequent additions at cost	877,976.86		
Less: Reserve for depreciation on additions subsequent to June, 1932	223,693.66	654,283.20	822,653.55
DEFERRED CHARGES:			
Unexpired insurance, prepaid expenses, etc.		51,493.55	
Stationery and supplies		6,300.00	57,793.55
GOODWILL			1.00
			$2,418,891.18

LIABILITIES

CURRENT LIABILITIES:			
Accounts payable—merchandise, less discounts			$ 612,310.77
Accounts payable—expenses, etc.			157,584.46
Customers' credits			22,867.35
Mortgage installments payable within one year			3,586.25
Reserve for Federal income taxes (Note E)			13,339.35
TOTAL CURRENT LIABILITIES			809,688.18
MORTGAGES PAYABLE IN INSTALLMENTS, LESS CURRENT INSTALLMENTS SHOWN ABOVE:			
Mortgage payable through October 8, 1945		$ 32,000.00	
Mortgage payable through October 28, 1957		41,360.85	73,360.85
CAPITAL STOCK AND SURPLUS:			
Convertible Preferred Stock—$5.00 Cumulative No Par Value—stated value $25.00 per share, entitled to $100.00 per share and accrued dividends in the event of liquidation—(Notes A, C and D) Authorized, issued and outstanding—17,500 shares		437,500.00	
Common Stock—Par Value $1.00 per share—(Notes A and B): Authorized—300,000 shares Issued and Outstanding—177,500 shares		177,500.00	
Surplus—Exhibit B—Note C:			
Capital Surplus	$718,953.00		
Earned surplus—since January 1, 1936	201,889.15	920,842.15	1,535,842.15
			$2,418,891.18

The notes to accounts, appended hereto, are an integral part of this statement and should be read in conjunction herewith.

NOTES TO CONSOLIDATED ACCOUNTS.

Note A — The outstanding capital stock as stated is after giving effect to the shares to be issued for 255 shares of the previously outstanding 6½% Preferred Stock, par value $100.00 per share, (entitled upon redemption or voluntary liquidation to $110.00 per share plus accrued dividends, and entitled upon involuntary liquidation to $100.00 per share plus accrued dividends) which had not been surrendered for cancellation and exchange as at December 31, 1938 for 255 shares of the new convertible, no par value, Preferred Stock and 765 shares of the new $1.00 par value Common Stock, under the plan of Recapitalization dated October 14, 1936. Cumulative dividends on said 255 shares of previously outstanding 6½% Preferred Stock amounted to $34.00 per share, or an aggregate amount of $8,670.00, as of the date when the Plan of Recapitalization was consummated. The Company may possibly be contingently liable, pending the exchange of the 255 shares of old 6½% Preferred Stock.

Note B — 105,000 shares of common stock, par value $1.00 per share, are reserved in connection with the conversion privilege granted to holders of the convertible preferred stock.

Note C — The company has been advised by its counsel, that in his opinion, there are no restrictions upon the surplus of the company by reason of the difference of $1,312,500 between the liquidation value of its convertible preferred stock and the stated value thereof. The Board of Directors, by a resolution dated October 25, 1938, expressed their intention at that time not to impair the capital surplus of the company and its subsidiaries as at December 31, 1937, which is stated at an amount of $718,953.00. It is contemplated that the Board of Directors whenever in its opinion, the earnings and the then financial condition shall warrant the same, will declare dividends from earnings or earned surplus account without regard to the fact that the excess of aggregate liquidation value of convertible preferred stock over its aggregate stated value may be greater than the sum of the par value of the common stock and surplus.

Note D — As at December 31, 1938, cumulative dividends on the convertible preferred stock for the three quarterly periods commencing March 1, 1938, amounting to $3.75 per share, or an aggregate of $65,625.00 were undeclared and unpaid.

Note E — The accompanying statements are subject to final determination of the liability for Federal income taxes.

EXHIBIT B

MANGEL STORES CORPORATION
AND SUBSIDIARIES
CONSOLIDATED SURPLUS—FOR THE YEAR ENDED DECEMBER 31, 1938

CAPITAL SURPLUS: Note C		
Balance at January 1, 1938		$718,953.00
EARNED SURPLUS (Since January 1, 1936) Note C		
Balance at January 1, 1938	$ 207,082.14	
Less: Provision for additional Federal income tax assessments for the year 1936	2,839.35	
	204,242.79	
Consolidated net income for the year ended December 31, 1938, per Exhibit C	18,673.89	
Adjustment of reserves for Federal income taxes provided for the year 1937	847.47	
	223,764.15	
Less: Dividend paid on preferred stork at the rate of $1.25 per share	21,875.00	
EARNED SURPLUS (since January 1, 1936) at December 31, 1938		201,889.15
		$920,842.15

The notes to accounts, appended hereto, are an integral part of this statement and should be read in conjunction herewith.

EXHIBIT C

CONSOLIDATED STATEMENT OF INCOME AND PROFIT AND LOSS
FOR THE YEAR ENDED DECEMBER 31, 1938

Net sales	$8,066,298.76
Cost of goods sold, general, administrative and selling expenses	7,924,390.86
Net operating profit before provision for depreciation	141,907.90
Provision for depreciation	96,202.43
Net profit before other income and other charges	45,705.47
Other income	5,740.26
	51,445.73
Other charges	22,271.84
Consolidated net profit before provision for Federal Income taxes	29,173.89
Provision for Federal excess profits and income taxes	10,500.00
Consolidated net profit transferred to surplus—Exhibit B	$18,673.89

The notes to accounts, appended hereto, are an integral part of this statement and should be read in conjunction herewith.

TO THE BOARD OF DIRECTORS,
MANGEL STORES CORPORATION,
NEW YORK, N. Y.

We have made an examination of the consolidated balance sheet of the Mangel Stores Corporation and its subsidiaries as at December 31, 1938, and of the consolidated statements of surplus, and income and profit and loss for the year ended December 31, 1938. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying balance sheet and related statements of surplus, and income and profit and loss, together with the comments thereon, fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, their consolidated financial position as at December 31, 1938, and the consolidated results of their operations for the year then ended.

New York, N. Y.
February 18, 1939.

S. D. LEIDESDORF & CO.